

REACHING HIGHER

Strategic Initiatives for Higher Education in Indiana

College Completion

➔ **AFFORDABILITY**

Preparation

Community College

Major Research
Universities

Accountability

REACHING HIGHER WITH AFFORDABILITY

Making College Affordable

June 13, 2008

Indiana Commission for Higher Education

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INDIANA COMMISSION
for
HIGHER EDUCATION

To thrive as a state and as individuals, all Hoosiers will need to achieve a depth and breadth of education never seen in the state's history. To meet this objective, the Indiana Commission for

Higher Education developed and adopted *Reaching Higher: Strategic Initiatives for Higher Education in Indiana (2008)* in six key areas: College Completion, Affordability, Preparation, Community College, Major Research Universities and Accountability. These papers support the Commission's *Reaching Higher: Strategic Directions for Indiana (2007)* by outlining specific initiatives and recommendations for action.

INDIANA'S ECONOMIC IMPERATIVE

For Indiana to be internationally competitive, its economy must evolve from a traditional rustbelt blue-collar economy to an information-age white-collar economy. For individuals, this transformation means ever-increasing levels of education. Finishing (or not finishing) high school and getting a high-paid job in manufacturing is part of Indiana's past. Individuals with a high school diploma (or even less) will be faced with significant challenges to earning a living that will support a family. The path to economic security and prosperity goes through college.

"Indiana would have to grant an additional 10,000 college degrees a year to compete internationally."

— National Center for Higher Education Management Systems

OPPORTUNITY FOR ALL

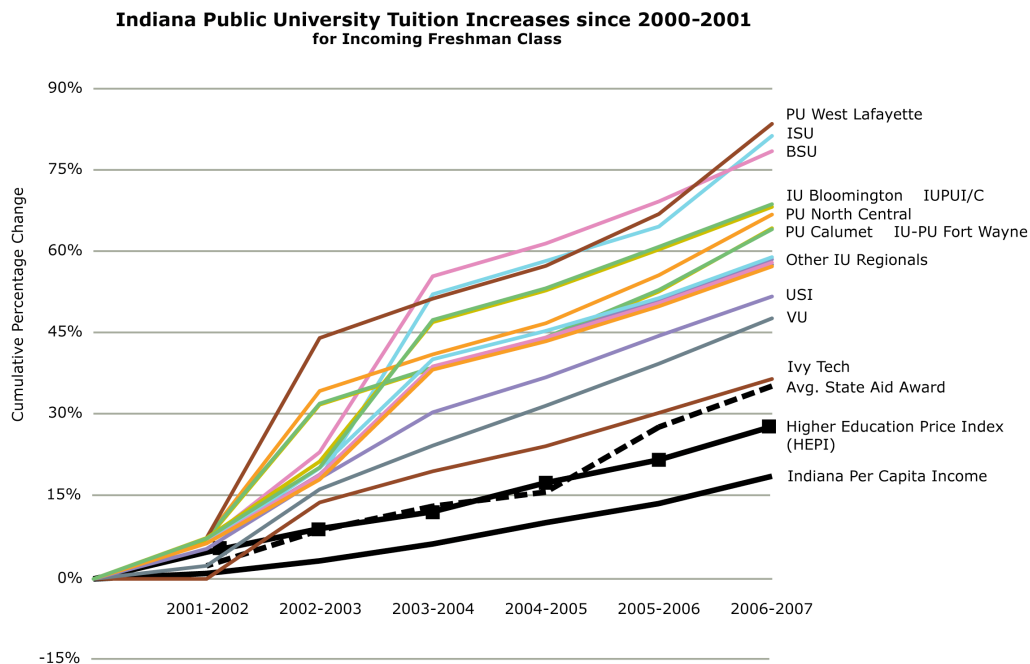
There is a growing economic divide — more than a million dollars in lifetime earnings — between those individuals with a college degree and those without. Too often, children born into low-income families never make their way out of poverty. Nationally, 77 percent of those students with family incomes in the upper quartile earn a bachelor's degree as compared to 9 percent in the lowest income quartile. Such challenges are especially daunting for African Americans. In fact, there are more young African American men in prisons than in college. Indiana spends about as much sending a student to college for a year as it does housing a prisoner in a jail.

"This year alone, due to record-high financial barriers, nearly one-half of all college qualified, low- and moderate-income high school graduates — over 400,000 students — fully prepared to attend a four-year college will be unable to do so, and 170,000 of these will attend no college at all." (Represents national data.)

— Empty Promises, Advisory Committee on Student Financial Assistance, June 2002

TUITION IS RISING FASTER THAN FAMILY INCOME

The price of college has continued to rise at twice the rate of inflation. Growing at about 7 percent a year, tuition doubles every 10 years. Increases in college tuition have exceeded increases in most other costs including energy, health care and pharmaceutical drugs.



Why is tuition rising at twice the rate of inflation?

Three primary factors contribute to this consistent increase in tuition:

Costs are constant

Higher education is largely a human-capital enterprise. Faculty and staff account for almost 80 percent of the general fund budget. To maintain and improve quality, colleges have had to be wage competitive, and expenditures have grown accordingly.

Demand is up

Over the past six years, Indiana added over 65,000 students (primarily at the community college) and the state has struggled to keep up with funding this increase.

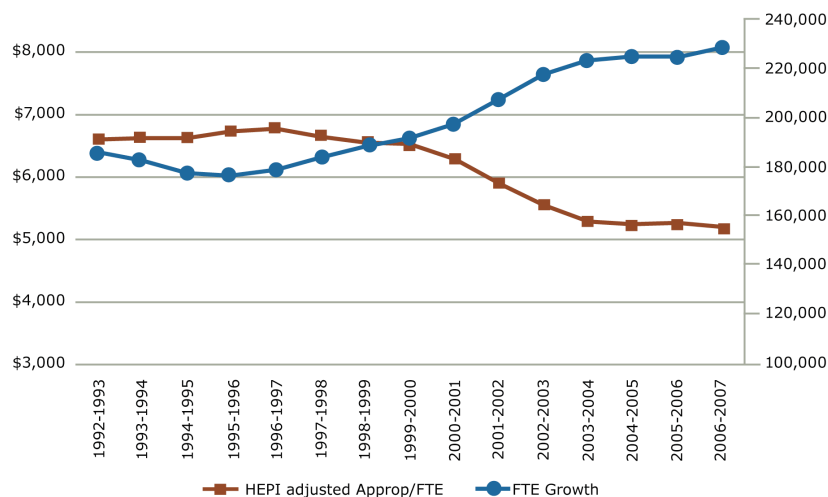
State appropriations have not kept pace

Though the Indiana General Assembly has consistently increased funding for public higher education, as the state has assumed growing financial responsibilities in areas such as K-12 education, social services, prisons and health care, the share of state tax support allocated to higher education has decreased over the last two decades.

REACHING HIGHER

Strategic Initiatives for Higher Education in Indiana

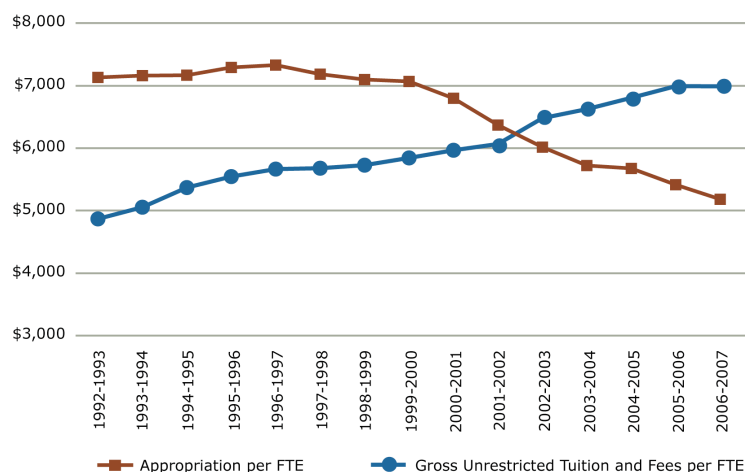
**State Appropriations per FTE (HEPI Adj \$2005)
Compared to Actual FTE Growth**



The cost of college has shifted to the student

Public higher education has been a shared responsibility between the state and students. When the state appropriation cannot keep pace, the burden shifts to student tuition. In the 1970s, students paid about one-third of the cost and the state paid two-thirds. In 1995, students paid 40 percent of the cost, and 10 years later in 2005, they paid 50 percent of the cost.

**Comparison of State Appropriations
per FTE Compared to Gross Tuition and Fee Revenue per FTE**



How are students responding to rising tuition?

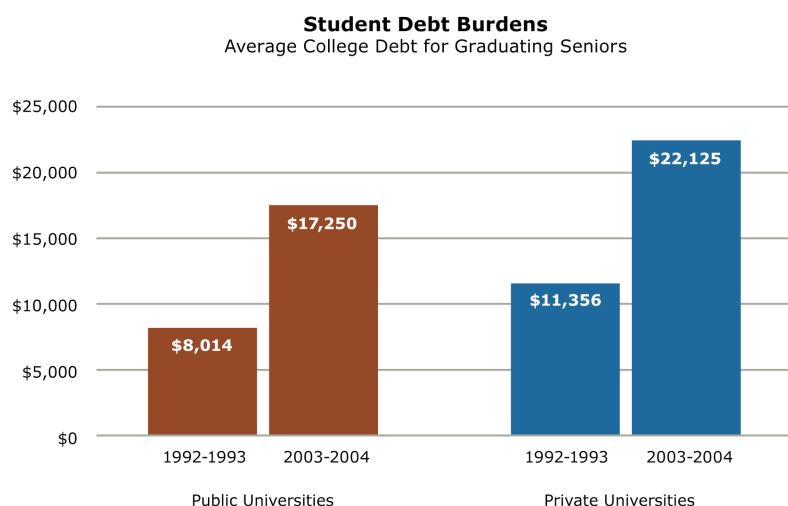
Hoosier students continue to participate in higher education in greater numbers despite the increasing cost of college. Today, 62 percent of Indiana's high school graduating class will go to college immediately (as compared to 56 percent nationally) and even more will enroll within five years of high school graduation. Given that possibly three-fourths of all high school graduates will eventually seek a college degree or credential, it is important to understand how students are responding to rising tuition.

More students are borrowing — and borrowing more — to attend

For the most part, such increased participation has been possible through the availability of educational loans. Traditionally, a student's ability to pay was made possible through relatively low tuition rates as two-thirds of college costs were subsidized by the state. Today, the average debt load for a student graduating from a four-year college is \$17,250.

Two-thirds of all students borrow money, and total borrowing has tripled in the past decade.

Poor students are more likely to borrow. Eighty-eight percent of Pell students borrow as compared to 52 percent of all undergraduate students.



An unfortunate consequence of student debt relates to those students who borrow and then drop out of college. These students are left in the position of bearing a greater financial burden without enhanced skills to increase their earning potential — and little chance of returning to higher education. In fact, students leaving college without a degree are 10 times more likely to default on their student loans. Many students find themselves needing more than the federal Stafford annual limits allow. This has led to a dramatic increase in parent loans as well as private (nonguaranteed) loans.

Students also are working more than ever before

Eighty percent of all students work, and they work, on the average, 30 hours per week. (Independent students work 35 hours per week, and dependent students work 25 hours per week. Twenty-three percent of full-time students work 35 or more hours per week compared to 53.3 percent of part-time students.) While there is evidence that some work (fewer than 10 hours per week) does not harm a student's academic success, evidence also suggests that students working more than 15 hours per week do not perform as well academically as others.

Is student financial aid filling the gap?

Family Income	Pell Grant (Federal)	O'Bannon Grant (State)
\$30,000	\$4,300	100%
\$40,000	\$2,150	50%
\$50,000	\$ 0	0%

Note: For comparison purposes, families cited in the above chart are assumed to be families of four with one child in college and with nonhousehold assets less than \$50,000 and attending a public college. (The appendix provides additional information on available institutional aid.)

Why is college affordability important?

Attaining a college degree has a profound impact on socioeconomic mobility in the United States. There is a striking difference between children born into poverty (the lowest income quintile) who earned a college degree versus similarly situated children who did not attain this credential. Those with a degree are nearly as likely to occupy a position in any one of the three higher income quintiles as adults. Those without a degree tend to remain mired in the lower income quintiles.

AFFORDABILITY RECOMMENDATIONS

1. Addressing the need for a better-informed public on the subject of covering college costs

69 percent of 11th graders from noncollege families do not think they can afford to go to college.

Many qualified students and their parents find themselves in a financial bind simply because they did not think about paying for college until they began thinking about enrolling. Modest college savings in tax-advantaged accounts begun when students enter elementary school (or even before) will dramatically improve most families' college affordability positions.

At Indiana's public universities alone, the total grant aid provided to students from federal, state, private and institutional sources was nearly \$635,000,000 in 2005-2006. This was nearly \$4,500 per grant aid recipient.

Effectively raising awareness of both the value of early planning and the availability of student financial aid for Indiana families will require **a multifaceted and well-integrated effort delivered consistently over time** to students and their parents.

Currently, Learn More Indiana is executing a comprehensive work plan to address this deficiency. In recognition of the extraordinary benefits of planning early for financing college costs, Learn More Indiana's strategy begins with delivery of materials on college planning tools (such as 529 savings accounts and the related state income tax credit) to parents of K-12 students. Their efforts also include integrated print and Web-based materials, as well as personal contacts with students, parents, educators and community leaders on matters ranging from academic preparation to accessing student financial aid. To build lasting capacity to support this mission, Learn More Indiana is leading an effort to establish the Indiana Coalition for College Success as a partnership between educators, community leaders, universities, government officials and employers across the state.

It is the Commission's view that continuing this effort is crucial to accomplishing the goal of raising the educational attainment level, productivity and earning capacity of Hoosiers so that the quality of life in Indiana can continue to rise. Ongoing financial support from public, philanthropic and private sources will be essential to raising the efficacy of this effort and deepening its penetration.

In addition to supporting and enhancing the efforts of Learn More Indiana to increase early planning for college and raise awareness of available student financial aid, the Commission specifically recommends that a **"College Day"** be established to provide college and financial aid information to every student at every high school in the state. For all seniors, hands-on assistance in completing financial aid forms would be available, and completion of a college application would be required. Submitting an application to the community college should be set as a default for those students who have not identified a college preference. Participation should be required.

The Commission recommends expansion of the **Twenty-first Century Scholars** enrollment program. Students who are eligible for free and reduced lunch may sign up in the 6th, 7th or 8th grade. In spite of the state's best efforts, fewer than half of those eligible sign up. The Lumina Foundation is promoting a "Know How2GO" campaign with the Commission and other partners to enroll more eligible students. Since this low-income population is the most challenging with regard to increasing college-going rates, the program deserves heightened attention, renewed focus and an improved model in further penetrating the market of eligible students.

As a means of demonstrating success and highlighting areas for improvement, each college and university should develop and submit to the Commission **annual institutional reports** that track the enrollment, retention and completion rates of low-income students, particularly for those students receiving financial aid. This tracking also should highlight specific campus programs and student-support services that have been implemented to serve these students.

2. Ensuring that Indiana's March 10 deadline for financial aid is not a barrier

Students must apply for state financial aid by March 10 preceding their enrollment in college that fall. For many students, this deadline does not present a problem. In fact, for some students, this early notification assists them in making their college choices and fall enrollment plans. For other students, especially late deciders, missing the March 10 deadline means missing the opportunity for state aid until the following school year. To ensure that there is enough money for students and to notify them in a timely way, the state has historically used a March 10 deadline. The deadline substantially affects Ivy Tech students, the majority of whom apply well past the deadline. Only one-third of Ivy Tech students who meet the March 10 deadline actually use the grant the following school year.

A separate Ivy Tech Community College financial aid program should be established that is separate from the traditional state aid program. The Ivy Tech program would allow students to apply at any time and would be awarded on a first-come, first-served basis. It may take several award cycles to determine the funds necessary for this program. As an additional benefit, the remaining pool of traditional students in the state program would be more predictable, which would allow for better financial aid estimates.

3. Simplifying Indiana's state financial aid program

The federal student aid program is a complicated process using at least 12 factors to make a decision on the amount of financial aid a student will receive. In the dispensing of state aid, Indiana has used essentially the same criteria. This process makes it difficult to communicate to students and families the amount of aid they qualify for and can expect to receive. Some students do not apply because they do not think they will qualify. Indiana cannot change the federal financial aid formula — but it can change its own formula. Indiana could limit the factors for determination to include only family income and family size. Such factors could be easily communicated through a simple chart or formula. Generally, dependent students with family incomes of \$25,000 or less would qualify for a full-tuition grant. Those whose incomes are

between \$25,000 and \$50,000 would qualify for a partial grant on a sliding scale. These factors would apply for all students whose nonresidential assets are less than \$50,000.

4. Ensuring affordable opportunities for the middle-income student

This proposal recognizes that traditional need-based financial aid programs were designed to serve low-income students. As the cost of college continues to increase, more students are working and taking out educational loans. The median family income for a family of four in Indiana is about \$66,000. Several alternatives could be explored, such as:

- Expanding the Twenty-first Century Scholars program. The current program requires students to qualify for the free or reduced lunch program, which is approximately \$38,000 for a family of four today. This could be expanded to 150 percent of the free and reduced lunch guidelines, which would be approximately \$57,000 for a family of four.
- Modifying Indiana's student aid formula to provide assistance on a sliding scale up to perhaps \$55,000 for a family of four.
- Providing the first two years of college free to families with incomes less than a given amount (\$55,000).
- Providing the first two years of education free at a community college or perhaps a regional campus.

5. Encouraging Indiana's colleges and universities to add to and remodel their own institutional aid programs to ensure that opportunities are available for students from low-income families

This proposal envisions that the universities and colleges would design **need-based financial aid programs that "wrap around" and leverage state and federal resources**. The best example of this is Indiana University Bloomington's Twenty-first Century Scholarship Covenant program. This program wraps around the Twenty-first Century Scholars program and pays for books, room and board after federal and state resources are applied. Indiana University-Purdue University Indianapolis also has adopted a program for Twenty-first Century Scholars whereby they provide an additional \$2,500 stipend to defray the costs of books and other expenses. These programs could be accomplished by colleges' reallocation of the financial aid they currently offer and/or devotion of a part of their fundraising campaigns to this effort. The Commission recognizes that there are similar programs at Indiana's other colleges and universities that have been or are being developed, such as Purdue University's recently announced Promise Program for Twenty-first Century Scholars. The scope and size of the program design may vary from campus to campus due to differences in mission and/or financial capacity to provide institutional aid.

6. Expanding and redefining state financial aid for part-time students

Existing college financial aid opportunities for part-time students are very limited. As the number of working adults returning to college to complete a degree or enrolling for the first time has risen, the demand for college aid by part-time students has grown accordingly. In the mid-1990s, the Indiana General Assembly authorized a small Part-Time Grant program. The level of funding — approximately \$5 million annually — has not changed appreciably since its inception, despite the rise in nontraditional students.

As initially conceived, this grant program targeted part-time students that had already made significant progress toward a degree. The hope was that a small additional state investment in these students might reap significant gains in degree completion. Over time, the General Assembly expanded eligibility for these awards, thus removing both the degree-completion and working-adult focus. **The Part-Time Grant program should be expanded** to reflect the rising demand. Additionally, eligibility should be reset to target working adult students (over age 25) and restore a focus on degree completion. A preference should be given to students in transitional employment. The grant money could be restricted to Ivy Tech and possibly the regional campuses where there are overwhelming numbers of part-time students. Additionally, Ivy Tech and the regional campuses ought to seek out employers who offer tuition-assistance programs.

7. Creating more predictability and transparency in the setting of tuition rates in Indiana's colleges and universities

One of the current challenges often cited by national experts, such as the Lumina Foundation, is the lack of coordination and communication between the legislators who make state appropriations and the colleges and universities who set tuition. Indiana is pursuing a process to improve communication between decisionmakers. In 2004, a process was established that provides for public hearings and notice — by state law — when tuition is set. The law further provided that tuition would be set two years at a time to coincide with state appropriations. In 2006, Indiana took a step further. State law requires the Commission for Higher Education to set **tuition targets** as nonbinding guidelines for the institutions. To exceed the guidelines, the institution is required to have a review (not approval) by the State Budget Committee.

GOVERNOR DANIELS' TUITION-ASSISTANCE PROPOSAL

On April 16, 2008, Governor Mitch Daniels publicly announced his intention to take action to markedly improve college participation, persistence and affordability in Indiana. This announcement was prompted in part by a report issued by the National Center for Higher Education Management Systems, as funded by the Lumina Foundation, suggesting that Indiana must increase the number of college degrees awarded by 10,000 annually to remain competitive in the 21st-century global economy. To put this goal in perspective, this represents an approximate 21 percent increase from our current rate of college degree production.

The governor laid out the basic framework of a plan to guarantee funding for two years of college to all prospective Indiana college students from families with income at or below the state's median: approximately \$55,000 per household. Essentially, the plan would fully cover the costs for tuition and mandatory fees at Ivy Tech Community College. This represents a promise of about \$6,000 — \$3,000 each year — in college grant aid for all eligible Hoosier students. Additionally, the governor suggested that this aid should be transportable, allowing students to apply it toward the tuition costs of any Indiana public or independent university of their choice and enabling these students to choose the college setting that best fits their needs and aspirations.

The governor cited two target subsets of future high school graduating classes he was hoping to affect: (1) students from the middle class who face serious difficulty in financing college costs, and (2) students from segments of the population with traditionally low college-going rates.

The governor's proposal is compelling and its design is aligned with two of the Commission's affordability recommendations:

- Simplifying Indiana's state financial aid program (Recommendation #3)
- Ensuring affordable opportunities for the middle-income student (Recommendation #4)

Additionally, this proposal is consistent with the Commission's Recommendation #5 — encouraging Indiana's colleges and universities to add to or remodel their own institutional aid programs to ensure that opportunities are available for students from low-income families. The design of the governor's proposal enhances efforts to encourage the state's public universities to offer more need-based, wrap-around grant aid to students and allows the universities to make such programs even more robust.

Governor Daniels' proposal has moved the discussion of college affordability in Indiana forward considerably and offered an attractive model for accomplishing some of the Commission's key college affordability goals.

OTHER IMPORTANT CONSIDERATIONS

The Community College — Ivy Tech Community College of Indiana has to be considered a critical part of the affordability puzzle. By far, it serves the largest number of first-generation, low-income, part-time and/or minority students. These are the students most affected by the price of college. The Commission's *Ivy Tech Community College of Indiana* working paper recommends establishing the community college as the low-cost gateway for recent high school graduates to access Indiana's public university system, including offering an accelerated degree program that would enable motivated students to earn an associate degree in just one year.

Time to Degree — The longer a student takes to complete his or her degree, the more it costs. This is particularly true for students enrolled at campuses with a flat tuition rate, as opposed to a credit-hour tuition-pricing regime. While many of the factors affecting on-time degree completion are personal and unique to the student, our public universities must be mindful of the barriers they may erect (i.e., scheduling limitations, overly rigid course requirements, limited course delivery options).

Credit Transferability — This issue is closely tied to time to degree. When students transfer and their credits do not, this slows their progress toward a degree and creates an immediate financial loss for the student. Furthermore, credit transferability is essential to our goal of establishing a public university system with affordable pathways to bachelor's and graduate degrees that begin at the community college.

Twenty-first Century Scholars Program — In addition to the financial support, Indiana has built additional support for students in high school through state funding and effective use of federal GEAR UP grants. Twenty-first Century students are more likely to graduate from high school, complete Core 40 and attend college at higher rates than other students at all income levels.

Institutional Efficiency — University spending is a fundamental driver of college tuition costs, but is often overlooked in discussions of improving college affordability. While establishing useful measures of university-operating efficiency could have been covered in the affordability recommendations presented above, we have instead addressed this topic in our working paper recommendations on accountability.

Individual Responsibility — It should be well understood by all who review this document that the recommendations presented herein were all crafted within the context of recognizing the dual public and private benefits of higher education. Significant attention was paid to this duality as we attempted to strike the proper balance between individual responsibility and the public interest in the design of our affordability recommendations. It is our opinion that some student/family participation in paying college costs is not only an appropriate acknowledgement of the private benefit of higher education, but if done properly it enhances student persistence by creating a clearer financial stake in the outcome.

Fiscal Impact — Certainly the fiscal impact on state government, the university or both is a serious consideration when crafting a plan to reduce the cost of attendance at our public universities. Internal staff work continues on estimating the costs of these proposals, but this work cannot be completed until the specific details of these recommendations are finalized.

BASIC ELEMENTS OF FINANCIAL AID

FAFSA — the federal financial aid form that all students must complete to qualify for federal aid, state aid or a federal guaranteed loan.

Stafford Loans — federal guaranteed loans that carry lower interest rates with payments deferred until after graduation.

Federal Pell Grant — a full-time student demonstrating financial need may apply at any time, and the grant may be as high as \$4,300. A student carrying six hours may qualify, and the grant is prorated. In Indiana, about 70,000 students attending public universities receive approximately \$160 million annually in Pell Grant aid.

O'Bannon Grant — a full-time student demonstrating financial need who applies by March 10 of the preceding year may obtain a grant for tuition up to the state public-college cap of \$6,096. All eligible students may get a grant of up to 80 percent of the cap, students with a Core 40 high school diploma may get a grant up to 90 percent of the cap and students with an Academic Honors high school diploma may get a grant up to 100 percent of the cap. This incentive is designed to encourage better academic preparation for college, which is a significant factor in achieving college success.

Freedom of Choice Grant — provides a supplement grant for students attending independent colleges that, when coupled with their O'Bannon Grant, covers tuition up to a cap of \$10,992 at any independent college in Indiana. The same 80 percent, 90 percent and 100 percent incentives for academic preparation that apply to the O'Bannon Grant also apply to this supplemental grant.

Twenty-first Century Scholar program — provides a full-tuition grant for students who are enrolling in 6th, 7th or 8th grade and qualify for the federal free or reduced lunch program. The student must graduate from high school, apply to college and complete Core 40, and not use drugs or alcohol.

Institutional Aid — aid awarded by a college or university to merit or financially needy students based on the institution's criteria. The institutional aid targeted in this paper is the portion that comes from state appropriations or student tuition. Independent colleges and some public universities also raise a considerable amount of private funds for financial aid.

SUMMARY OF AFFORDABILITY RECOMMENDATIONS

1. Addressing the need for a better-informed public on the subject of availability of covering college costs

- Support a **multifaceted and well-integrated effort delivered consistently over time** to students and their parents that raises awareness of both the value of early planning and the availability of student financial aid.
- Establish a **“College Day”** to provide college and financial aid information to every student at every high school in the state with hands-on assistance in completing financial aid forms and college applications.
- Expand the **Twenty-first Century Scholars** enrollment program to further penetrate the pool of students eligible but not participating in the program.
- Require each college and university to develop and submit to the Commission **annual institutional reports** that track the enrollment, retention and completion rates of low-income students, particularly for those students receiving financial aid.

2. Ensuring that Indiana’s March 10 deadline for financial aid is not a barrier

- To ensure that there is enough money for students and to notify them in a timely way, the state has historically used a March 10 deadline in its state financial aid process. The deadline substantially affects Ivy Tech students, the majority of whom apply well past the deadline. A separate Ivy Tech Community College financial aid program should be established that is separate from the traditional state aid program. The Ivy Tech program would allow students to apply at any time and would be awarded on a first-come, first-served basis.

3. Simplifying Indiana’s state financial aid program

- Indiana’s state financial aid system essentially uses the same criteria as the federal student aid program — a complicated process using at least 12 factors to make a decision on the amount of financial aid a student will receive. This process makes it difficult to communicate to students and families the amount of aid they qualify for and can expect to receive. Indiana could limit the factors for determination to include only family income and family size. Such factors could be easily communicated through a simple chart or formula.

4. Ensuring affordable opportunities for the middle-income student

- Expand the **Twenty-first Century Scholars** program to make income eligibility **150 percent of the free and reduced lunch guidelines**, which would be approximately \$57,000 for a family of four. The current program requires students to qualify for the free or reduced lunch program, which is approximately \$38,000 for a family of four today.
- Modify **Indiana's student aid formula** to provide assistance on a sliding scale up to perhaps **\$55,000** for a family of four.
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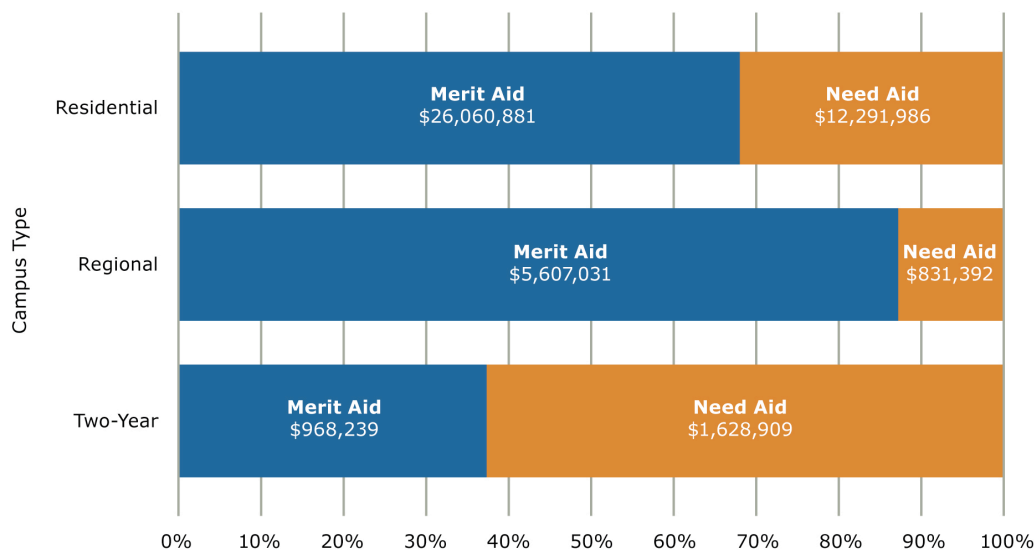
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APPENDIX

Primary Institutional Aid to Resident Undergraduates

Merit vs. Need-Based Allocations by Campus Type



Percentage Share of Aid for 2005-2006 Academic Year

Primary Institutional Aid at Residential Campuses

Detail for Resident vs. Nonresident Students and Undergraduate vs. Graduate Students

